[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1983-1988

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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ESTIMATES OF TAX EXPENDITURES

I. Introduction

This report on tax expenditures is prepared for the House Committee on Ways and Means and the Senate Committee on Finance, and it also is submitted as the report of the Joint Committee on Taxation to the House and Senate Committees on the Budget. As in the case of earlier reports,[1] the estimates in this report were prepared with the extensive assistance of the staff of the Office of Tax Analysis in the Treasury Department. The first two reports were prepared at the request of the conferees on the Revenue Act of 1971 that tax expenditure data be submitted regularly to Congress by the Joint Committee staff. The last report was published one year ago for submission to the Committees on the Budget.

On January 31, 1983, the Administration published its estimates of tax expenditures for fiscal years 1982–1984 in Special Analysis G of the Budget for fiscal year 1984.[2]

This report covers estimates of tax expenditures for fiscal years 1983–1988. The tax expenditure items included in this pamphlet and in Special Analysis G overlap to a considerable extent. Comments on some of the differences appear in Part II of this report. The tax expenditure report by the Congressional Budget Office (CBO), which will be published later this year, will contain the same listings as this publication. The staff of the Joint Committee has made its estimates in terms of the provisions in present law (as enacted through the 97th Congress) and has assumed that the expiration dates which apply to some provisions will not be extended or otherwise modified and that no other changes will be made in the present law. However, provisions are not listed if their effect on revenue results only from taxpayer activity in prior years. For example, although taxpayers are currently entitled to carryovers of the general jobs credit, it is not listed as a tax expenditure because only wages paid in 1977 and 1978 were eligible for the credit.

Part II of this report contains a discussion of the concept of tax expenditure, and it is followed in Part III by a discussion of the measurement of tax expenditures. Estimates of tax expenditures are presented in tables 1 and 2 in Part IV.

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[1] *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, and March 8, 1982.

[2] "Tax Expenditures," Special Analysis G, *The Budget of the United States Government for Fiscal Year 1984*.

II. The Concept of Tax Expenditures

Overview

Tax expenditure estimates measure the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. The term tax expenditure is derived from the assumption that the goals of these favorable tax provisions could be accomplished by replacing them with direct expenditure programs. Tax expenditures, in this view, are analogous to those direct expenditures which have no program spending limits, and which are available as entitlements to individuals and corporations who meet the criteria established for the programs. As in an entitlement program, any taxpayer who meets the criteria specified in the Internal Revenue Code may use the provision without any further action by the Federal Government. Tax expenditure provisions, unlike direct spending programs, are administered by the Internal Revenue Service.

From the viewpoint of the budget process, fiscal policy and the allocation of resources, uncontrollable outlays or revenue losses restrict the range of adjustments that can be made in public policy. Budget documents present details about current and proposed spending programs, and tables of Federal tax receipts simply present the amount of revenue derived from specific taxes, e.g., the individual income tax, corporation income tax, excise taxes, and social security taxes, without any information about revenues foregone because of tax expenditure items. One of the initial purposes of the listing of tax expenditures was to provide Congress with the information it would need to select between a tax or an outlay approach to accomplish a given goal of public policy.

In this report, the staff followed the definition of tax expenditures that appears in the Congressional Budget Act: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a "normal" tax structure, and it also refers to the first 2 tax expenditure pamphlets prepared by the Joint Committee staff in which the "normal" tax structure was used as the reference point. Under the individual income tax, this normal tax structure includes a single personal exemption for each taxpayer and one for each dependent; the zero bracket amount, which serves as a general minimum standard deduction for all taxpayers; the progressive rate structure; the exclusions for various types of imputed income, such as

the rental value of owner-occupied homes; and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tool that a mechanic uses. Analogously, the normal tax structure of the corporation income tax includes deductions for the costs incurred in producing income, including depreciation. However, it does not include the graduated tax rate structure on the grounds that those provisions are intended as a way of providing tax relief to small corporations.

The staff acknowledges that its concept of a normal tax structure may err on the side of being too narrow and that its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a *de minimis* amount. The staff emphasizes, however, that in the process of listing tax expenditure items no judgment is made, nor any inference intended, about the desirability of any special provision as public policy, or about the effectiveness of the tax approach relative to other methods available to the Federal Government for achieving the particular public policy goals intended.

As defined in the Congressional Budget Act, the concept of tax expenditure refers to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds, and credits, such as, gasoline tax exemptions for nonhighway uses. The staff is studying whether it would be useful to expand the coverage of tax expenditures to types of taxes other than income taxes.

Special Analysis G (in the Budget for fiscal year 1984) has reported two estimates of tax expenditures—revenue loss and outlay equivalents. In this report, only revenue loss estimates are reported, since this conforms with the requirement in the Congressional Budget Act that the Joint Committee is to report revenue losses from tax expenditures. The outlay equivalent of a tax expenditure is the size of the outlay which would be needed to produce the equivalent of the benefits obtained from the tax expenditure. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the taxable income of the beneficiaries of the program. The outlay equivalent measure is useful in comparing tax expenditures with outlay programs.

Individual income tax

The staff does not include as tax expenditures either the zero bracket amount or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing and shelter. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the zero bracket amount.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for moving expenses, employee business expenses, investment expenses, and business-re-

lated travel expenses. Itemized deductions for nonmortgage interest are listed as a tax expenditure only to the extent that those deductions exceed investment income. This treatment of interest represents a change from previous years, when a separate tax expenditure was listed for consumer interest, defined as interest incurred on installment loans, credit card loans and other consumer loans. Because money is fungible, the staff believes that it is improper to classify interest based solely on the character of the lender or the type of loan; therefore, this report, in effect, assumes that all nonmortgage interest is investment interest (and, hence, not a tax expenditure) to the extent it does not exceed investment income and that all remaining itemized interest is classified as a tax expenditure.

The new provisions for capital gains treatment on incentive stock options, which were enacted in the Economic Recovery Tax Act of 1981, are not treated as a tax expenditure. Even though these represent deviations from a normal individual income tax structure, the revenue loss from capital gains treatment is offset by the revenue gain resulting from the fact that the employer loses his deduction when employee compensation is paid in the form of incentive stock options.

The failure to tax imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as, in measuring gross national product. However, measurement of the imputed income for income tax purposes would present severe administrative problems, and its exclusion from taxable income is as much an administrative necessity as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; among the others are the income that could be imputed to household furniture and appliances, books and art collections, and automobiles. If all the imputed income items were included in adjusted gross income, however, it would be proper to include all interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income. Thus, in effect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for not listing the exclusion of imputed income on durable assets.

The new deduction for two-earner couples added by the 1981 tax Act, is included as a tax expenditure on the grounds that it applies to only one type of income—earned income. The Administration excluded it from Special Analysis G, presumably because it considered this deduction to be part of the basic structure of the income tax, along with the other provisions for differentiating tax liabilities between different types of tax units.

The staff analysis does not agree with the special analysis on another tax expenditure affecting the individual income tax. The estimate of capital gains at death in this report is computed as the excess of the sales price of a capital asset over the value at the time of acquisition by the original owner. Capital gains at death are included in Special analysis G only to the extent of carryover basis but not the exclusion of 60 percent of the capital gain. The

exclusions of carryover basis and 60 percent of the capital gain are included in the estimate of capital gains at death in this report.

Business income taxation

For business income, taxed under the both the individual and corporate income taxes, the most difficult issues in defining tax expenditures relate to capital costs, which are costs not properly allocable to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit cost recovery deductions on equipment under some form of accelerated depreciation over the estimated useful life of the asset. For structures, it is assumed that the normal tax structure would involve straight-line depreciation over the estimated useful life. The tax law applicable to pre-1981 depreciable equipment permitted taxpayers to shorten tax lives for purposes of computing depreciation deductions by up to 20 percent under the Asset Depreciation Range (ADR) system. This ADR variance is considered a tax expenditure. Providing investment incentives through allowing investors to depreciate property over periods shorter than the expected useful lives was carried further with enactment of the Accelerated Cost Recovery System (ACRS). Under this provision, statutory cost recovery periods were established for both equipment and structures, generally without regard to the expected useful life of the property. Shortened useful lives under ACRS and ADR are treated as a tax expenditure in this report to the extent that it provides cost recovery deductions in excess of what is assumed to be the normal tax structure. Special Analysis G omits this as a tax expenditure.

One of the problems with the staff's definition of the depreciation tax expenditure is that it neglects the effect of inflation in eroding the real value of depreciation deductions. Even with accelerated depreciation, taxpayers will not always receive deductions whose real value corresponds to the amount they originally paid for the asset. A similar problem arises in the definition of the tax expenditure for capital gains. The staff is studying whether to alter the definitions of these and other tax expenditures to take account of the distortions caused by inflation.

Safe-harbor leasing, as enacted in the 1981 tax Act, is classified as a separate tax expenditure. This provision departs from normal tax rules by allowing taxpayers to use paper transactions, without economic substance, to transfer tax benefits among themselves.

The staff estimated the tax expenditure for expensing of research and development expenditures with reference to a longer useful life than the 3 years provided under ACRS.

The foreign tax credit is not classified here as a tax expenditure because it is considered a way of taking into account the interrelationship of domestic and foreign tax systems and avoiding double taxation. In addition, this analysis does not attempt to go behind the treatment as income taxes by U.S. taxpayers of payments to foreign governments as income taxes, i.e., it does not attempt to determine whether such payments claimed as foreign tax credits satisfy the requirements of creditability.

Other comparisons with Special Analysis G

There are other differences in the estimates of the revenue loss from some tax expenditures between this report and the special analysis. Aside from conceptual differences that have been noted in the text above, the Joint Committee staff prepared its estimates at a later date and thereby benefited from more current statistics, market prices and interest rates.

Three items which appear both in this report and in Special Analysis G are listed under the Income Security function in Special Analysis G but are shown under other budget functions here:

Exclusion of interest on State and local housing bonds for rental housing is in the Commerce and Housing function;

Amortization of motor carrier operating rights is in the Transportation function;

Deduction for adoption expenses is in the function for Education, Training, Employment, and Social Services.

The following 17 items are included as tax expenditures in table 1 (below), but they were excluded from Special Analysis G. One item, income of trusts to finance supplemental unemployment benefits, was included in Special Analysis G but is not in table 1.

International affairs

Deferral of income of controlled foreign corporations.

General science, space and technology

Suspension of regulations relating to allocation under section 861 of research and experimental expenditures.

Natural resources and environment

Exclusion of payments in aid of construction of water, sewage, gas and electric utilities.

Agriculture

Deductibility of patronage dividends and certain other items of cooperatives.

Exclusion of certain cost sharing payments.

Commerce and housing

Net interest exclusion.

Deductibility of nonmortgage interest in excess investment income.

Depreciation on rental housing in excess of straight-line.

Depreciation on buildings (other than rental housing) in excess of straight-line.

Accelerated depreciation on equipment other than leased property.

Capital gains at death.

Reduced rates on the first $100,000 of corporate taxable income.

Education, training, employment, and social services

Exclusion of scholarship and fellowship income.
Exclusion of employer provided child care.
Deduction for two-earner married couples.

Income security

Exclusion of public assistance benefits.
Individual retirement plans.

III. Measurement of Tax Expenditures

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The amount of a deduction is added back into taxable income, which raises its level. The difference between the estimates of tax liabilities under present law, which provides for the deduction, and the higher level of tax liabilities under the assumption that the provision does not exist is the amount of the tax expenditure. For this computation, it is assumed that nothing else changes.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why totals for table 1 are shown only in a footnote.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated: whether it would involve direct expenditures, direct loans, or loan guarantees; or whether it would involve a different form of a tax expenditure, or a general reduction in tax rates. It was not assumed when the estimates were made that, if any of these provisions were repealed, adjustments would be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy.

Year to year differences in the estimates for each tax expenditure may be explained by changes in tax law, e.g., the reduction in marginal tax rates and the indexing provision enacted in the Economic Recovery Tax Act of 1981, which affect the estimates for successive years. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of inflation, changed economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

IV. Tax Expenditure Estimates

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the tax expenditures are grouped in table 1 in the same functional categories as outlays in the federal budget. Estimates are shown separately for individuals and corporations. Some tax expenditures do not fit clearly into any of the budget functional categories, and they have been placed in the functional category which is the most appropriate. A list of the differences in the classification of specific tax expenditures among functional categories between Special Analysis G and this report appears in Part II, on pages 6 and 7.

Table 2 provides estimates by expanded income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the distribution. Tables 1 and 2 assume the tax law as enacted through the 97th Congress.

Table 1.—Tax Expenditure Estimates by Function [1]

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel	.....	.....	.....	.....	.....	.....	2,205	2,250	2,380	2,520	2,670	2,820
Exclusion of military disability pensions	.....	.....	.....	.....	.....	.....	165	160	165	175	185	195
International affairs:												
Exclusion of income earned abroad by United States citizens	.....	.....	.....	.....	.....	.....	1,285	1,300	1,365	1,435	1,505	1,580
Deferral of income of domestic international sales corporations (DISC)	1,390	1,185	1,075	1,050	1,075	1,110	.....	.....	.....	.....	.....	.....
Deferral of income of controlled foreign corporations	430	345	375	390	420	455	.....	.....	.....	.....	.....	.....
General science, space, and technology:												
Expensing of research and development expenditures	2,165	2,370	2,360	2,425	2,485	2,535	105	120	125	125	130	135
Credit for increasing research activities	615	650	660	305	65	25	30	35	40	30	5	(2)
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	120	60	(2)	.....	.....	.....	.....	.....	.....	.....	.....	.....
Energy:												
Expensing of exploration and development costs:												
Oil and gas	660	440	590	740	835	895	875	800	815	855	900	950
Other fuels	30	30	35	35	40	40	.....	.....	.....	.....	.....	.....

Excess of percentage over cost depletion:												
Oil and gas	375	430	445	465	510	555	1,425	1,275	1,305	1,410	1,505	1,625
Other fuels	325	350	355	380	410	440	15	15	15	15	15	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	140	145	160	175	190	205
Alternative fuel production credit	5	20	25	40	105	285	.....	.....	.....	.....	.....	.....
Alcohol fuel credit [3]	5	5	5	5	5	5	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government industrial development bonds for energy production facilities	15	20	30	40	55	70	5	10	15	20	20	25
Residential energy credits:	.....	.....	.....	.....	.....	.....						
Supply incentives	.....	.....	.....	.....	.....	.....	340	450	610	700	70	.....
Conservation incentives	.....	.....	.....	.....	.....	.....	330	305	305	260	.....	.....
Alternative, conservation and new technology credits:												
Supply incentives	215	200	175	100	35	20	10	10	5	.....	.....	.....
Conservation incentives	135	35	15	5	(2)	.....	(2)	(2)	(2)	.....	.....	.....
Energy credit for intercity buses	5	5	5	(2)	.....	.....	.....	.....	.....	.....	.....	.....
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	55	60	65	75	80	85	(2)	(2)	(2)	(2)	(2)	(2)
Excess of percentage over cost depletion, nonfuel materials	270	295	310	335	355	380	10	10	15	15	15	15
Capital gains treatment of certain timber income	275	390	430	500	575	595	95	125	150	175	205	230
Investment credit and seven-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	10	10	10	10	10	10
Capital gains treatment of iron ore	5	5	5	5	5	10	5	5	5	5	5	10
Exclusion of interest on State and local government pollution control bonds	900	1,025	1,140	1,255	1,375	1,510	440	505	565	620	680	745
Exclusion of payments in aid of construction of water, sewage, gas, and electric utilities	45	75	75	80	75	70	.....	.....	.....	.....	.....	.....

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Tax incentives for preservation of historic structures	65	90	110	140	185	240	130	165	215	275	355	460
Agriculture:												
Expensing of certain capital outlays	85	90	95	100	100	105	475	495	510	530	545	565
Capital gains treatment of certain income	30	35	35	40	40	45	455	475	500	530	545	565
Deductibility of patronage dividends and certain other items of cooperatives	950	980	1,010	1,040	1,075	1,110	−390	−400	−410	−425	−435	−450
Exclusion of certain cost-sharing payments							50	45	40	30	25	25
Commerce and housing:												
Dividend exclusion							445	435	440	450	460	480
Reinvestment of dividends in stock of public utilities							365	415	450	230		
Net interest exclusion									1,110	3,095	3,480	3,945
Exclusion of interest on State and local government industrial development bonds	2,355	2,790	3,265	3,875	4,385	4,615	570	675	800	985	1,180	1,310
Exclusion of interest on certain savings certificates							2,355	550				
Exemption of credit union income	170	185	200	220	240	260						
Exclusion of interest on life insurance savings							4,805	5,170	5,805	6,640	7,590	8,675
Excess bad debt reserves of financial institutions	335	575	785	930	1,060	1,030						

Deductibility of nonmortgage interest in excess of investment income							7,735	8,160	8,815	9,590	10,550	11,645
Deductibility of mortgage interest on owner-occupied homes							25,065	27,945	30,130	32,785	35,305	37,950
Deductibility of property tax on owner-occupied homes							8,765	9,535	10,480	11,710	13,215	14,980
Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,060	1,190	1,190	1,145	1,105	1,070	450	485	475	445	415	385
Exclusion of interest on State and local government housing bonds for rental housing	585	735	880	1,035	1,185	1,345	285	355	430	510	585	665
Deferral of capital gains on home sales							3,770	4,895	5,625	6,000	6,480	7,030
Exclusion of capital gains on home sales for persons age 55 and over							1,255	1,630	1,875	2,000	2,160	2,345
Depreciation on rental housing in excess of straightline	120	155	165	170	180	185	575	665	720	760	795	820
Depreciation on buildings other than rental housing in excess of straightline	175	200	215	240	265	295	150	165	185	210	230	250
Accelerated depreciation on equipment other than leased property	9,510	15,865	18,860	17,445	14,110	13,890	1,015	2,460	2,845	2,825	2,255	1,915
Safe harbor leasing:												
Accelerated depreciation and deferral	1,745	1,885	1,635	1,285	1,040	525						
Investment credit	1,625	915	705	710	515	280						
Amortization of business start-up costs	15	20	25	30	35	40	105	160	230	285	315	355
Capital gains other than agriculture, timber, iron ore and coal	1,770	2,075	2,130	2,305	2,475	2,695	14,955	14,320	15,365	16,440	17,590	18,820
Capital gains at death							3,975	3,565	3,665	3,920	4,195	4,490
Reduced rates on the first $100,000 of corporate income	5,690	6,525	7,025	8,060	8,765	9,090						

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing	9,965	12,315	16,075	19,870	21,650	22,860	3,220	3,350	3,615	3,945	4,245	4,595
Transportation:												
Amortization of motor carrier operating rights	70	70	50	15	5	(2)	5	5	5	5	(2)	.....
Deferral of tax on shipping companies	30	40	40	45	45	45	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government mass transit bonds	45	65	75	75	65	75	15	25	20	15	10	20
Community and regional development:												
Five-year amortization for housing rehabilitation	20	25	25	25	25	25	30	35	35	35	35	35
Investment credit for rehabilitation of structures other than historic structures	175	200	185	195	215	235	160	165	160	165	180	200
Education, training, employment, and social services:												
Exclusion of scholarship and fellowship income	.....	.....	.....	.....	.....	.....	415	375	395	410	435	460
Exclusion of interest on State and local government student loan bonds	150	200	260	320	390	460	70	100	125	155	190	225
Parental personal exemption for students age 19 or over	.....	.....	.....	.....	.....	.....	995	950	885	895	905	920
Exclusion of employee meals and lodging (other than military)	.....	.....	.....	.....	.....	.....	680	725	795	870	945	1,030

Employer educational assistance							40	20				
Exclusion of contributions to prepaid legal services plans							25	25	10			
Exclusion for employer provided child care							10	25	55	85	120	155
Tax credit for ESOPs	1,250	1,375	1,875	2,235	2,330	950						
Deductibility of charitable contributions (education)	280	345	360	415	480	525	495	495	580	735	660	615
Deductibility of charitable contributions, other than education and health	350	425	445	515	590	645	6,795	6,765	7,930	10,030	9,030	8,370
Credit for child and dependent care expenses							1,520	1,765	2,190	2,465	2,765	3,160
Targeted jobs credit	215	395	355	155	30	5	75	70	30	(2)		
Deduction for two-earner married couples							3,555	5,835	6,350	6,935	7,600	8,460
Deduction for adoption expenses							10	10	10	10	15	15
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care							18,645	21,300	24,280	27,680	31,555	35,975
Deductibility of medical expenses							3,105	2,630	3,070	3,370	3,740	4,165
Exclusion of interest on State and local government hospital bonds	795	960	1,115	1,265	1,420	1,580	385	470	545	625	700	780
Deductibility of charitable contributions (health)	175	215	225	255	295	325	995	990	1,160	1,470	1,320	1,225
Tax credit for orphan drug research	10	15	15	10								
Income security:												
Exclusion of social security benefits:												
Disability insurance benefits							1,690	1,660	1,695	1,755	1,840	1,930
OASI benefits for retired workers							15,685	16,680	18,070	19,640	21,275	23,045
Benefits for dependents and survivors							3,765	3,870	4,095	4,355	4,630	4,920
Exclusion of railroad retirement system benefits							780	765	765	745	755	775

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of workmen's compensation benefits							1,870	2,090	2,395	2,755	3,170	3,645
Exclusion of special benefits for disabled coal miners							170	165	165	160	160	165
Exclusion of untaxed unemployment insurance benefits							3,260	3,020	2,585	2,405	2,265	2,120
Exclusion of public assistance benefits							430	430	440	455	470	485
Exclusion of disability pay							145	135	130	130	130	130
Net exclusion of pension contributions and earnings:												
Employer plans							49,700	56,560	66,365	78,310	92,405	109,035
Plans for self-employed							1,065	1,050	1,070	1,115	1,165	1,220
Individual retirement plans							2,695	3,180	3,705	4,240	4,745	5,360
Exclusion of other employee benefits:												
Premiums on group term life insurance							2,100	2,250	2,465	2,715	2,985	3,285
Premiums on accident and disability insurance							115	120	125	130	135	140
Additional exemption for the blind							35	35	35	35	35	35
Additional exemption for elderly							2,365	2,410	2,570	2,720	2,410	3,130
Tax credit for the elderly							135	135	135	135	135	135
Deductibility of casualty and theft losses							575	380	470	520	590	670
Earned income credit [4]							385	330	290	215	155	210
Veterans benefits and services:												
Exclusion of veterans disability compensation							1,820	1,830	1,950	1,995	2,070	2,145

Exclusion of veterans pensions							310	290	280	275	275	275
Exclusion of GI bill benefits							130	130	115	100	90	65
General government:												
Credits and deductions for political contributions							190	200	220	220	230	240
General purpose fiscal assistance:												
Exclusion of interest on general purpose State and local government debt	6,985	7,850	8,695	9,530	10,370	11,280	3,435	3,870	4,295	4,715	5,130	5,580
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes							20,060	21,770	26,605	29,970	34,125	39,010
Tax credit for corporations receiving income from doing business in U.S. possessions	1,350	1,075	1,135	1,240	1,375	1,525						
Interest:												
Deferral of interest on savings bonds							50	160	225	290	355	410

[1] All estimates are based on the tax law enacted through the 97th Congress.

[2] Less than $2,500,000. All estimates have been rounded to the nearest $5 million.

[3] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts, net of the income tax effect, of approximately $40 million for 1983, $60 million for 1984, $80 million for 1985, $95 million for 1986, and $110 million for 1987 and 1988.

[4] The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is: $1,197 million in 1983, $1,119 million in 1984, $1,032 million in 1985, $1,004 million in 1986, $968 million in 1987, and $910 million in 1988.

SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1983–88

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1983	295,280	56,225	239,055
1984	327,455	67,915	259,540
1985	369,330	77,475	291,855
1986	411,575	83,210	328,365
1987	446,725	84,600	362,125
1988	490,850	86,495	404,355

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in the table. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]

[Amounts in millions of dollars; returns in thousands]

Expanded income class (thousands) [2]	Age exemption		Blind exemption		Dividend exclusion	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	390	32			243	3
$5 to $10	2,418	342	49	6	919	14
$10 to $15	1,718	329	22	3	1,157	22
$15 to $20	966	227	16	3	939	22
$20 to $30	1,175	351	21	4	1,914	60
$30 to $50	772	305	31	8	2,736	119
$50 to $100	325	186	3	1	1,485	91
$100 to $200	98	68	1	(*)	380	28
$200 and over	30	22	(*)	(*)	95	7
Total	7,893	1,863	143	26	9,868	365

See footnotes at end of table.

Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]—Continued

Expanded income class (thousands) [2]	Disability pay exclusion [3]		Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	63	29	249	3	385	7
$5 to $10	63	40	1,212	76	1,519	71
$10 to $15	27	10	1,937	143	2,267	169
$15 to $20	10	1	2,561	195	2,861	262
$20 to $30	3	(*)	5,864	434	8,132	1,034
$30 to $50			6,700	576	9,438	2,394
$50 to $100			1,988	346	2,757	1,593
$100 to $200			346	99	457	527
$200 and over			82	84	93	206
Total	166	80	20,938	1,956	27,907	6,263

Expanded income class (thousands) [2]	State and local income tax deduction		State and local sales and other tax deductions		Home mortgage interest deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	524	3	713	12	751	33
$5 to $10	1,682	31	2,077	58	2,131	171
$10 to $15	2,383	120	2,919	121	2,490	375
$15 to $20	3,390	301	3,806	226	2,875	822
$20 to $30	8,630	1,467	9,758	871	7,687	3,599
$30 to $50	9,597	3,812	10,542	1,741	8,643	7,203
$50 to $100	2,748	3,102	3,073	963	2,292	3,854
$100 to $200	465	1,491	522	299	328	927
$200 and over	106	1,185	120	134	57	217
Total	29,526	11,512	33,530	4,425	27,254	17,201

See footnotes at end of table.

Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]—Continued

Expanded income class (thousands) [2]	Deductibility of nonmortgage interest in excess of investment income		Charitable contributions deduction [3]		Casualty loss deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	402	4	411	3	3	3
$5 to $10	1,216	43	1,826	38	12	2
$10 to $15	1,888	123	2,847	121	34	7
$15 to $20	2,994	320	3,797	231	44	27
$20 to $30	7,923	1,440	9,346	856	46	53
$30 to $50	8,275	2,403	10,467	1,951	39	72
$50 to $100	1,950	1,064	3,123	1,525	22	74
$100 to $200	264	375	585	881	4	29
$200 and over	44	128	148	1,488	1	16
Total	24,957	5,900	32,551	7,095	205	283

Expanded income class (thousands) [2]	Elderly credit [3]		Child care credit [3]		Earned income credit [4]	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5			31	(*)	1,844	561
$5 to $10	204	37	296	75	3,866	1,132
$10 to $15	125	28	550	182		
$15 to $20	61	23	628	188		
$20 to $30	60	22	1,374	368		
$30 to $50	32	12	1,448	395		
$50 to $100	16	6	253	83		
$100 to $200	1	1	19	7		
$200 and over			2	1		
Total	499	129	4,601	1,300	5,710	1,694

See footnotes at end of table.

Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]—Continued

Expanded income class (thousands) [2]	Political contribution credit		Capital gains exclusion	
	Returns	Amount	Returns	Amount
Below $5	10	(*)	173	144
$5 to $10	195	8	411	172
$10 to $15	339	13	573	278
$15 to $20	452	19	477	338
$20 to $30	743	39	968	1,018
$30 to $50	1,078	57	1,349	2,144
$50 to $100	501	30	833	2,674
$100 to $200	136	9	241	2,034
$200 and over	40	3	64	3,394
Total	3,494	179	5,090	12,196

*Less than $500,000 or 500 returns.

[1] Estimated for the present law at 1984-rates, and at 1981 income levels.

[2] Expanded income equals adjusted gross income plus minimum tax preferences (mostly excluded capital gains) less investment interest expense to the extent of investment income.

[3] This distribution is subject to substantially higher sampling variability than most of the others.

[4] Includes the refundable portion of the earned income credit.